



July 2, 2012

The Honorable Daniel R. Elliott III Chairman, Surface Transportation Board 395 E Street SW Washington, D.C. 20423-0001

Dear Chairman Elliott:

Thank you for the invitation to discuss CSX's current estimates of its capabilities to meet expected demands for rail service through the balance of 2012 and beyond. Despite challenging economic conditions, CSX is prepared, not only to meet near-term demands across its markets, but also to leverage opportunities for customer growth. The company's capabilities today are a direct result of record investments over the past several years made possible by a balanced regulatory approach at the STB. CSX has expanded line-of-road capacity and terminals, purchased or leased locomotives and rail cars, and hired thousands of new railroaders. Most importantly, CSX is operating at very high safety levels, and every employee understands that safety is the most important priority.

CSX plans to invest a record \$2.25 billion this year, in addition to the \$10.5 billion invested during 2006-2011. In fact, the company has plans to spend between 16 and 17 percent of revenues on capital projects through 2015, in addition to investments to be made to implement Positive Train Control. Investments in transportation infrastructure and the hiring and training of employees require long lead times, and are being made to capitalize on short-term opportunities and to prepare for longer-term demand.

Long-range capital plans are based on the existing regulatory framework with the expectation of higher returns as CSX employees further improve efficiencies and productivity. As noted in prior letters and the conclusion of this letter, any action to limit long-haul freight rail movements and force the opening of private networks would force CSX to scale down investment plans and job creation.

Despite an uneven economy, CSX anticipates that slow, steady growth will continue over time. As noted in its first-quarter earnings report, CSX expects 90 percent of the company's markets to be stable or to grow in 2012. To date, traffic across the network continues to operate fluidly, and congestion is not anticipated. While intermodal volume is expected to rise later this summer and fall, no significant surge in other traffic is forecasted. As requested, some of these markets are discussed more fully later.

RESOURCES

CSX investments in people, assets and technology continue in 2012. The company is adding about 2,000 coal gondolas, 900 covered hoppers, 525 covered coil gondolas, and 150 automotive tri-levels. CSX is taking delivery of 65 new, fuel-efficient locomotives and rebuilding 20 more units as part of an ongoing fleet modernization initiative.

This year's maintenance of way program includes the replacement of 472 miles of track, 144 switches or turnouts, 3.2 million crossties, and 3.5 million tons of ballast. CSX just completed its annual maintenance jamboree on a key southeastern route in which about a year's worth of maintenance and upgrades was compressed into one week to reduce customer impacts. The timing — coinciding with coal mine worker vacations — minimizes the impact on coal and other shippers. The company also plans to build or expand intermodal or TRANSFLO terminals at Worcester and Westborough, Mass.; Winter Haven, Fla.; and Columbus, Ohio.

CSX expects to hire about 3,000 people this year, including approximately 1,500 train and engine service personnel, to offset attrition. About 1,000 of these new employees will be military veterans as part of CSX's ongoing recruitment of veterans and to fulfill a commitment to the White House Joining Forces initiative.

Like most businesses, CSX maintains flexibility to add or pull back resources quickly as demand dictates. About 10,300 freight cars are in storage, and include equipment typically used in housing and construction markets, those affected by seasonal cycles, and older assets. In addition, approximately 230 locomotives are stored but could be returned to service within a few weeks.

CSX currently has almost 350 people on furlough with most on a furlough retention board, which guarantees two paid days of service per week in exchange for employees remaining available to work when needed. Employees on the furlough retention board receive full health and welfare benefits.

MARKETS

As requested, here is some detail on what CSX is seeing in its intermodal, automotive, oil and gas, and coal markets:

Intermodal

CSX anticipates full-year growth in the intermodal market, both in international and domestic freight, due to expansion of new markets and lanes and from taking trucks off the nation's highways. CSX expects a modest fall peak in intermodal shipments this year, although it is projected to be above last year. Tightening truck capacity, fuel costs, and regulation all continue to drive modal conversion to rail. Longer term, the total addressable opportunity to convert highway freight to rail in the eastern U.S. is more than 9 million loads per year.

Automotive

North American light vehicle production is forecast to increase 12 percent this year. In support of increased demand, CSX has further invested in its vehicle distribution centers and multi-level car fleet. Improved velocity in the automotive train network has also contributed to additional capacity. CSX now has 10,000 multi-levels, and provides 20 percent of the nationwide reload pool. The company plans to continue to acquire multi-levels to meet customer needs and grow automotive share.

Oil & Gas

CSX is playing a key role in the rapidly developing energy markets related to hydraulic fracturing to extract natural gas and crude oil. This expanding business has driven increased demand for specialized sands moved by CSX to extraction wells in Pennsylvania, West Virginia and eastern Ohio. CSX accesses many of those sites through its short line railroad partners and/or with TRANSFLO transload terminals, including a new facility at Fairmont, W.Va. Last year, the company increased train frequencies and acquired 900 new small-cube covered hoppers to serve the "frac sand" business. The extraction processes also generate some movements of pipe and other products.

Shipping crude oil by rail is another opportunity. CSX has been working closely with customers to develop rail direct or rail-to-terminal options to move crude oil from the West to the eastern refinery base. From Chicago interline connections, CSX has designed multiple unit-train movements to eastern destinations in less than two days. Early test moves have been encouraging and hold potential for rapid cycle times that would reduce the need for customer investment in tank cars.

Coal

Utility coal remains challenged by low natural gas prices, mild weather and federal policies that seek to reduce coal as part of the nation's energy mix. Over time, both growth in the economy and population will drive increased demand for electrical generation. While CSX expects natural gas and other alternative fuels to play an increasingly important role in meeting energy needs, coal will remain an integral component of electrical generation in the years to come. Global demand for export coal remains strong. Infrastructure and equipment are in place to support that export activity.

In addition to these markets, CSX continues to support the safe, reliable movement of a variety of commodities and products including metals, chemicals, agricultural products, food and consumer goods, aggregates and other building materials. Earlier this year, CSX and its customer, Mosaic, along with third-party Road and Rail Services, were recognized at the North American Rail Shippers conference with the Argus Win-Win Award. The award was for a rail-truck initiative that converted phosphate highway movements to rail and increased Mosaic's efficiencies.

CAPITAL INVESTMENT

Infrastructure maintenance is the foundation for providing superior customer service. In fact, about 52 percent of the 2012 capital plan is dedicated to maintaining existing capacity. About 24 percent is for locomotive and freight car acquisitions, 12 percent for strategic investments, and the remaining 12 percent for the development and installation of Positive Train Control (PTC).

Major capital projects include the National Gateway and the Chicago Region Environmental and Transportation Efficiency Program (CREATE).

The National Gateway, an approximately \$850 million cooperative venture with the federal government, six states, and the District of Columbia, is more than a third complete. Work on Phase I of clearances between Northwest Ohio and Chambersburg, Pa., is on schedule for early 2013 completion. The Northwest Ohio terminal – opened last year – is fully operational and getting containers to East Coast markets 1-2 days faster. In addition, the company is working closely with the Maryland Department of Transportation to site an intermodal terminal in the Baltimore area, and with the District of Columbia Department of Transportation on the Virginia Avenue tunnel improvements.

CREATE, when complete, will improve passenger rail service, speed up freight rail shipments, reduce highway-rail crossing conflicts, and improve air quality. CSX's investment so far is \$33.8 million, and three of the nine planned projects are finished.

In addition to these infrastructure projects, a substantial share of capital is dedicated to complying with the PTC mandate. CSX has planned nearly 3,600 locomotive modifications and more than 7,100 wayside installations. The overall cost of installing and maintaining PTC for the industry represents more than \$10 billion in unfunded mandates. While the amount CSX plans to spend in 2012 has not changed, the total projected up-front PTC cost on CSX has increased to about \$1.7 billion.

PASSENGER RAIL

The PTC mandate includes lines over which passenger and commuter railroads operate. Each day, approximately 75,000 passengers ride on 225 Amtrak and regional commuter trains that operate on CSX. In addition to existing passenger and commuter services, the company is working with the federal government and the states on additional services where capacity is available.

In Florida, the state is building the SunRail commuter system on the 61.5 miles of former CSX track that the company sold last year. The first phase of that service is expected to begin in 2014. As the Board knows, CSX retains a perpetual, exclusive easement to continue to operate over the line. CSX is re-investing all of the \$432 million transaction proceeds in infrastructure

within the state, including expanded capacity on an alternate line and an intermodal terminal at Winter Haven.

In Massachusetts, CSX and the commonwealth are working to expand commuter service from Boston to Worcester while also enhancing freight service. This includes the expansion of an intermodal terminal at Worcester and the construction of a TRANSFLO terminal at Westborough. At the same time, Massachusetts and CSX are on schedule to increase vertical clearances of structures on the CSX line between Worcester and New York State. The goal is to create New England's first double-stack cleared rail route by the end of the year.

In New York State, an environmental review of high-speed rail continues. Meanwhile, CSX, Amtrak and the state are in the process of executing an agreement that will enable Amtrak to enhance intercity passenger rail service between New York City and Albany, while ensuring the viability of vital freight rail service in the area. Under that agreement, CSX will lease to Amtrak approximately 100 miles of track and right of way between Poughkeepsie and Schenectady on the line east of the Hudson River.

Other projects are in exploratory stages with various federal and state officials, including Virginia and North Carolina, as the company works with those entities to explore the potential for various high-speed, higher-speed and conventional trains. As always, CSX holds firm that any high-speed rail system should operate on dedicated lines for reasons of safety, capacity and reliability.

In terms of reliability, Amtrak on-time performance year to date for trains operating on CSX is 85.3 percent, compared to 84.7 percent in 2011. Year to date, on-time performance of the commuter agencies is as follows: Virginia Railway Express, 97 percent; Maryland Area Rail Commuter, 95 percent; Massachusetts Bay Transportation Authority, 94 percent; and South Florida Regional Transportation Authority (SFRTA), 86 percent. All are improvements over 2011, with the exception of SFRTA's Tri-Rail, which was 90 percent last year.

CUSTOMER SERVICE

Just as passengers demand schedule integrity, CSX's freight customers require reliability and consistency in the logistics chain. Customers manage their inventories with a level of precision unimagined just a few short years ago. CSX has a number of initiatives under way to better anticipate and respond to customers' needs. The Service Excellence initiative is an ongoing holistic approach to improving every aspect of service delivery, while the TSI Carload initiative focuses on specific merchandise market needs including the first mile and last mile of the delivery process.

Velocity, terminal dwell and cars on line – regularly reported to the Board – continue to move in the right direction. The company, through a third party, annually surveys more than 2,000 of its customers, and those responses are at all-time best levels – the highest rating since the survey began in 2004.

More remains to be done to further improve customer service and unlock growth. As noted in last year's letter, CSX employees visited all 5,000 customer sites located on its network. This year, sales and marketing personnel, accompanied by front-line operations managers, are again visiting many of these customers. The personal visits provide a better understanding of customers' service needs, the design of their facilities, and feed more accurate data to the customer relationship management tool and to ShipCSX, an online customer service feature. In addition, CSX's Customer Advisory Council helps validate customer surveys.

Other customer-focused technology includes mobile apps for real-time shipment and train tracking information, and on board work order devices to provide proactive, transparent, real-time notifications of customer requests and exceptions. Full-day training for front-line employees helps them understand how their work impacts customers.

WHAT AMERICA'S RAILROADS NEED

CSX, like all U.S. railroads, is able to invest heavily in greater freight capacity and improved customer service only because it has a strong balance sheet, market-based earnings, and capital markets that view freight rail as a sound investment. The freight rail industry needs to invest even more to meet growing customer needs. This will only be possible through continuation of the balanced regulatory policies that the STB has implemented since the 1980 Staggers Rail Act.

Very truly yours,

Michael Ward

Chairman, President and CEO

CC: The Honorable Francis P. Mulvey, Vice Chairman The Honorable Ann D. Begeman, Commissioner